

HOUSE BILL REPORT

HB 2684

As Reported by House Committee On: Appropriations

Title: An act relating to vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3.

Brief Description: Allowing vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3.

Sponsors: Representatives Fromhold, Bailey, Conway, Lovick, Green, Sells, Kenney, Quall, Simpson, Moeller and Morrell; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 1/23/06, 2/4/06 [DPS].

Brief Summary of Substitute Bill

- The vesting requirement in Plans 3 of the Public Employees' Retirement System, the School Employees' Retirement System, and the Teachers' Retirement System is reduced from 10 years or five years with one year after age 54 to five years of service with one year after age 44.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 30 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Armstrong, Bailey, Buri, Chandler, Clements, Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hinkle, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, Miloscia, Pearson, Priest, Schual-Berke, P. Sullivan, Talcott and Walsh.

Staff: Kristen Fraser (786-7148).

Background:

A member of Washington retirement systems must complete specific amounts of qualified employment before he or she is entitled to a pension benefit. This period of service requirement is called "vesting."

In the Public Employees' Retirement System (PERS) Plans 1 and 2, the School Employees' Retirement System (SERS) Plan 2, and the Teachers' Retirement System (TRS) Plans 1 and 2, the vesting period for employees is five years. After five years of service in Plan 1 or Plan 2, members' defined benefits are based in part upon the number of qualified years of service they have worked multiplied by 2 percent of their final average salaries. The method of calculating final average salary varies by plan.

The Plans 3 are a "hybrid" plan design in which employer contributions are made to support a defined benefit, and employee contributions are made into individual defined contribution accounts.

In PERS 3, SERS 3, and TRS 3, the vesting period in the defined benefit portion of employees' benefits is 10 years, or five years including one year after age 54. After 10 years of service, a Plan 3 member's defined benefit is based upon the number of qualified years of service he or she has worked multiplied by 1 percent of average final salary. Plan 3 members vest immediately in the defined contribution portion of their benefits.

Members who were already vested in Plan 2 when they transferred to PERS 3, SERS 3, or TRS 3 remain vested members.

Summary of Substitute Bill:

Members of PERS, SERS, and TRS Plans 3 vest after five years of service, with one year after 44.

Substitute Bill Compared to Original Bill:

The substitute bill permits vesting in Plan 3 with five years of service with one year after age 44. The original bill permitted vesting with five years at any age.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: Five-year vesting for members of the Plan 3 systems is a matter of basic fairness between the vested and non-vested members. Lowering the vesting period from 10 years to five years will help with recruiting. Those who transfer from Plan 2 to Plan 3 should have the same vesting period.

Testimony Against: None.

Persons Testifying: Randy Parr, Washington Education Association; Don Carlson, Public School Employees of Washington; Lee Goeke, Vancouver Public Schools and Washington

State Principals Association and Select Committee on Pension Policy; Wendy Rader-Konofalsky, American Federation of Teachers Washington; and David Westberg, Stationary Engineers.

Persons Signed In To Testify But Not Testifying: None.